# BC IMMIGRANT INVESTMENT FUND LTD.

# 2015/16 – 2017/18
# SERVICE PLAN

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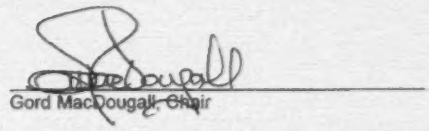
# Accountability Statement

The 2015/16 – 2017/18 BC Immigrant Investment Fund (BCIIF) service plan was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events, and identified risks as of January 9, 2015 have been considered in preparing the plan. The performance measures presented are consistent with BCIIF's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of BCIIF's operating environment, forecast conditions, risk assessment, and past performance.




Gordon MacDougall
Board Chair
January 2015
Vancouver, British Columbia

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# Strategic Direction and Context

## Strategic Direction

The BC Immigrant Investment Fund ("BCIIF" or "the Corporation") is mandated to receive and manage BC's allocation of funds under the federal Immigrant Investor Program (IIP) to invest in economic development and job creation opportunities in the Province of BC.

In accordance with a Treasury Board Directive, Government appointed a Board of Directors in July 2012 to comply with Crown Agency standard governance practices. As part of the new governance and board structure, BCIIF has transitioned its operations, appointing a Chief Executive Officer and staff.

In February 2014, the federal government announced its intention to terminate the IIP, BCIIF's primary source of capital. In response to this, BCIIF is working with the Ministry of International Trade to complete a review process that will determine the future mandate for both BCIIF and its subsidiary the B.C. Renaissance Capital Fund (BCRCF). BCIIF will continue to support the mandate review through to its completion, expected by Summer 2015.

While no new investments are to be made during the mandate review process, BCIIF will continue to maintain best business and investment practices to realize positive investment returns. As of December 31, 2014, BCIIF continues to use the services of the BC Investment Management Corporation (bcIMC's) and the Province's Central Deposit Program (CDP) and has invested $166 million in liquid instruments with these two organizations.

In accordance with government direction, BCIIF will provide active oversight of the eight venture capital fund managers and will continue to report on the Corporation's capital commitments.

As per government's Mandate Letter, the following are BCIIF's specific strategic priority actions for the 2015/16 fiscal year:

- BCIIF will work with the Ministry of International Trade to complete the BC Immigrant Investment Fund mandate review and implement a new mandate direction. During the review period no new investments are to be pursued.
- To minimize the exposure of accessing the guarantee that the Province has given to the federal government on monies received under the Immigrant Invetor Program, by maintaining best business and investment practices to realize positive investment returns.
- To monitor and report on its capital commitments of up to $90 imllion in venture capital investments.
- To use either the Ministry of Finance or BC Investment Management Corporation (bcIMC) for investment or deposit of funds in liquid investments, other than amounts allocated to venture capital and Government's Reporting Entity investments.

More information on BCIIF's strategic direction from Government is contained in the 2015/16 Mandate Letter, available at: www.bcrcf.ca/bciif/about/reports.html

In response to government's introduction of the *Taxpayer Accountability Principles* in July 2014, BCIIF has established Standards of Conduct, which are publicly available via the BCIIF website: http://www.bciif.ca/bciif/docs/BCIIF_Standards_of%20Conduct.pdf. These Standards apply to management and staff, including both direct employees and contractors of BCIIF and BCRCF, and align with best practices for strong corporate governance.

## Operating Environment

BCIIF investments are targeted broadly for economic development and job creation in the province, and are directed to three asset classes -- public sector infrastructure investments, venture capital fund investments, and cash and short-term investments, through bcIMC and CDP. Appendix C provides additional information on key risks and opportunities that may affect BCIIF's investment performance in 2015/16.

**Loan Portfolio of Infrastructure Investments:** BCIIF infrastructure investments are comprised of long-term loans to entities in the provincial public sector (Government Reporting Entity, or GRE), primarily to post-secondary institutions.

**Venture Capital Portfolio:** Through its wholly-owned subsidiary BCRCF, BCIIF manages $90.2 million of committed capital in a venture capital fund-of-funds model with two primary objectives: to attract venture capital fund managers to promote innovation, and to obtain superior financial returns. Investments are committed to fund managers, or General Partners (GPs) who make equity investments in individual companies across four key technology sectors.

**Cash & Short Term Investments:** BCIIF's short-term investments are in an investment pool managed by bcIMC comprised of short-term, low risk, and high quality government and corporate debt securities. Since 2013, funds are also invested with the Ministry of Finance in the CDP, which deploys the short-term monies primarily for financing the Consolidated Revenue Fund.

# Performance Plan

# Goals, Strategies, Measures and Targets

The goals, strategies, and measures reflect the ongoing transition of BCIIF. A Board of Directors and dedicated executive have provided new capacity to the organization, including the ability to increase compliance practices and focus on a comprehensive approach to implementing the Mandate Letter direction.

**Performance Measures Framework**

BCIIF's performance measures framework follows the *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks, and targets that are linked to specific goals, objectives and strategies. The framework also reflects BCIIF's dual mandate to earn commercial returns and promote economic development, as well as to keep the Province's debt burden affordable. The framework provides broad goals, aligns specific corporate strategies to each goal, incorporates ongoing research regarding suitable benchmarks and targets, and provides discussion of the significance of results.

**Outlook**

BCIIF believes the performance measures it uses highlight the most crucial aspects of its performance and reflect those aspects of its performance where it has control or influence over outcomes. It is recognized that these performance measures are subject to refinement and evolution as the Corporation matures.

**Source Data and Reliability**

BCIIF has sought to identify performance measures that are reliable and valid. Current and historical performance measures are not audited however, they are largely based on audited information, and information subject to third-party verification.

# Goal 1: Generate Returns that Meet or Exceed BCIIF's Current Investment Strategy.

Commercial returns on low-risk investments will provide liquidity for retiring the five-year immigrant investor loans from the Government of Canada and mitigating the high-risk $90 million venture capital portfolio. BCIIF's current infrastructure portfolio is comprised of long-term loan investments to the Provincial Treasury, which provides loan financing to entities in the provincial public sector. Loan investments earn yields that are equivalent to the government's cost of borrowing. Infrastructure loan investments have historically been targeted to supporting approved public sector infrastructure projects.

The 2015/16 Mandate Letter continues to direct BCIIF to use either bcIMC or the CDP for investment or deposit of funds in liquid investments, other than amounts allocated to venture capital and Government's Reporting Entity infrastructure investments. In accordance with the direction provided by government, BCIIF will continue to maintain best business and investment practices to realize positive investment returns.

### Performance Measure 1: Achieve targeted average yields on investments.

| Performance Measure | 2013/14 Actual | 2014/15 Forecast | 2015/16 Target | 2016/17 Target | 2017/18 Target |
|---|---|---|---|---|---|
| 1.1: Five Year Weighted Average BCIIF Portfolio Return[1] | 2.68% | 2.63% | 2.26% | 2.21% | 2.06% |
| 1.2: One Year Weighted Average BCIIF Portfolio Return[1] | 2.33% | 2.03% | 1.87% | 2.04% | 1.76% |

**Data Source:** Rates projected based on Canada 3-month T-bill +1.93% (long-term average spread between T-Bill and Prime). T-Bill rate based on the average of six private sector forecasters (Scotiabank*, CIBC*, TD*, RBC*, IHS Global Insight, BMO).

[1] Both the 1 and 5 year weighted average BCIIF portfolio return include rates on Money Market (bcIMC and CDP) and Infrastructure investments. For clarity, this calculation does not include Venture Capital investments.

**Discussion**

These performance targets assume that BCIIF will invest capital in ways that support Government's economic and jobs strategy, meet BCIIF's risk profile and achieve commercial returns while sustaining an investment strategy which is affordable for the Province's fiscal plan. Targets assume that a minimum of $20 million will be invested in Money Market instruments for liquidity purposes. The targets also consider BCIIF's historical investment strategy and performance as well as its preferred investment term, which is aligned with its five-year obligation to repay funds to the federal IIP.

## Goal 2: Optimize BCIIF's Investment Strategy and Operations.

Building on the work completed in 2014/15, BCIIF will continue to improve operations and reporting, and formalize its accountabilities with the introduction of a Performance and Accountability Framework ("Framework"). The framework will be aligned with government's direction provided through its Taxpayer Accountability Principles and BCIIF's strategic direction. The framework will formalize a clear set of accountability mechanisms and performance expectations around a set of BCIIF outputs, outcomes, and impacts. The development of the framework will help to identify gaps in information being collected, provide options for filling these gaps, and drive improvements in service delivery. The framework will also contribute towards maintaining best business and investment practices, and achieving corporate objectives through improved transparency and performance assessment. To ensure financial sustainability, BCIIF is focused on efficiency and effectiveness throughout its operations. The expense ratio is a key measure of operational cost efficiency and will be calculated following the first full year of implementation.

## Performance Measure 2: BCIIF Operational Efficiency and Effectiveness

| Performance Measure | 2013/14 Actual | 2014/15 Forecast | 2015/16 Target | 2016/17 Target | 2017/18 Target |
|---|---|---|---|---|---|
| 2.1: Develop and adopt Performance and Accountability Framework | N/A[1] | N/A[1] | Develop Framework and Submit to Board for Approval | Implement Framework | Monitor Performance and Update Framework |
| 2.2: Expense ratio[2] | N/A[3] | N/A[3] | Establish baseline | Maintain or improve | Maintain or improve |

Data Sources: BCIIF internal performance and accountability framework and internal BCIIF calculations.

[1] This is a new measure for 2015/16.

[2] Expense ratio will be derived from BCIIF's audited consolidated financial statements. The metric will be compared to the management fee charged by publicly owned institutional investment organizations, which have similar investment and operational requirements..

[3] This is a new measure for 2015/16.

**Discussion**

To support the achievement of these performance measures, BCIIF continues to engage in research to identify best practices in organizational structure, risk management, and performance measures through its relationships with other global institutional investors and research networks. Appropriate best practices that meet BCIIF's operational and performance requirements will continue to be adopted and adapted to suit the needs of the organization and used to support the development of the framework. Additional performance benchmarks will also be determined with the completion of the framework.

# Goal 3: Stimulate Commercialization of Innovation and Venture Capital Investments in BC.

The B.C. Renaissance Capital Fund, which is structured as a 'fund of funds', is unique in its approach to attracting world-class venture capital investors. Access to capital with a global reach and experienced executive management is critical to foster commercialization and growth for BC companies. To increase the visibility of BC as an attractive market for venture capital opportunities, BCRCF strives to increase domestic and international ties through its fund managers. These fund managers have networks that extend around the world. To increase the probability of investments in BC companies, BCRCF fund managers have entered into side letter agreements with BCRCF, under which they commit to perform investment activities in BC.

Venture capital investments are subject to the "J-curve effect", where funds deliver negative returns in early years with investment gains in the outlying years as the portfolio companies mature. Historically, the returns rise above the starting point after three to five years of investment activities.

However, slow economic growth and resistance to risk continue to dampen opportunities to exit companies. Thus, caution must be exercised to manage expectations about the timing of venture capital returns, which are expected to be realized in the latter half of the fund's life. In anticipation of a longer path to liquidity, fund managers will likely redirect capital to shore up existing portfolio companies and be more cautious with the rate at which they deploy capital.

## Performance Measure 3: BCRCF Cumulative Capital Called and Invested

| Performance Measure | 2013/14 Actual | 2014/15 Forecast | 2015/16 Target | 2016/17 Target | 2017/18 Target |
|---|---|---|---|---|---|
| 3.1: Cumulative capital call on BCRCF's commitments to fund managers. | $59 million | $66 million | $75 million | $80 million | $84 million |
| 3.2: Cumulative investment by BCRCF fund managers in BC companies | $139 million | $145 million | $150 million | $160 million | $168 million |
| 3.3: Cumulative investment by BCRCF fund managers and syndicate partners in BC companies | $288 million | $300 million | $310 million | $320 million | $336 million |

**Data Source** Capital calls and investment amounts are based on invoices, BCRCF venture capital fund managers' audited financial statements and quarterly performance reports.

**Discussion:**

The performance targets demonstrate the continued leverage of BCRCF's venture capital investments to attract new investment in BC companies focused in the Information Technology, Life Sciences, Digital Media, and Clean Technology sectors. BCRCF venture capital fund managers maintain and develop key relationships and networks that support BC's $90 million venture capital commitment and encourage investment in BC companies.

BCIIF has used the historical leverage factor of approximately 2.0 times and 4.0 times the capital called to BC investments for performance measures 3.2 and 3.3 respectively.

Performance targets for 2015/16 – 2017/18 have been adjusted to reflect cumulative capital called and investment by BCRCF fund managers as at December 31, 2014. Although BCRCF funds are fully committed, and many BCRCF fund managers are at or nearing the end of their investment periods, there is still a reasonable expectation that a portion of the funds available for new investments from existing BCRCF venture fund managers will be directed to qualified BC technology companies.

As the BCRCF venture capital funds are still young and the portfolio company investments are privately held and illiquid, returns are reported as they are realized.

# Financial Plan

## Summary Financial Outlook

| Summary Financial Outlook (in $000s) | 2013/14 Actual | 2014/15 Forcast | 2015/16 Budget | 2016/17 Budget | 2017/18 Budget |
|---|---|---|---|---|---|
| **Total Revenue ($000)** | | | | | |
| Investment income | 2,263 | 3,551 | 2,293 | 3,971 | 179 |
| Interest income | 8,778 | 7,695 | 6,897 | 6,074 | 3,861 |
| **Total** | **11,041** | **11,246** | **9,190** | **10,045** | **4,040** |
| **Total Expenses ($000)** | | | | | |
| Advertising and promotion | 47 | 60 | 60 | 60 | 60 |
| Board of director fees & expenses | 91 | 120 | 120 | 120 | 120 |
| Board of director support services | 53 | 94 | 94 | 94 | 94 |
| Salary, wages & benefits | 285 | 566 | 566 | 566 | 566 |
| Investment fees | 192 | 176 | 176 | 176 | 176 |
| Office & business expenses | 60 | 101 | 101 | 101 | 101 |
| Professional fees | 145 | 257 | 257 | 257 | 257 |
| Amortization of discount | 5,363 | 5,806 | 4,462 | 3,160 | 2,150 |
| **Total:** | **6,236** | **7,180** | **5,836** | **4,534** | **3,524** |
| **Net Income** | **4,805** | **4,066** | **3,354** | **5,511** | **516** |
| **Accumulated Surpluses/Retained Earnings** | **42,613** | **46,679** | **50,033** | **55,544** | **56,060** |
| **Liabilities (Debt to Canada)** | **440,311** | **432,773** | **412,423** | **310,708** | **224,099** |

# Key Forecast Assumptions

The above financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).

This Service Plan incorporates "forward-looking statements" including information related to anticipated growth in revenues, growth in retained earnings, investment performance, expense levels, as well as the expected effects of interest rate changes. Actual results may differ materially from those in the forward-looking information as a result of various factors, some of which are beyond BCIIF's control, including but not limited to those discussed under the "Risks" section in Appendix C.

Notes:

1. Revenue is based on a conservative assumption that all available funds, other than amounts required to meet venture capital commitments, will be invested in liquid financial instruments, earning returns based on the Treasury Board Staff interest rate forecast. Prior year service plans projected that capital would be allocated towards government loans. During BCIIF's current mandate review, the service plan projects capital being allocated to CDP and bcIMC. To be conservative, venture capital investment income is reported as it is realized.
2. Advertising & promotion expenses are used to attract venture fund managers to BC investment opportunities in targeted sectors.
3. Board of director support services include advisory and corporate secretariat services.
4. Salary, wages & benefits are forecasted to reflect BCIIF's independent operations. In prior years, partial salaries and travel expenses were recovered from BCIIF to compensate government for the fractional time provided by government staff in their duties related to BCIIF and BCRCF.
5. Investment fees include bcIMC and Corporate Project Finance management fees that cover costs for managing the short-term investments and public infrastructure loans. Forecasted investment fees are decreasing to reflect a reduction in investment under bcIMC's management. While investment costs are reduced, they will not go to zero as a portion of capital; in particular, US dollar investments will remain with bcIMC.
6. BCIIF continues to receive monthly allocations from the Government of Canada. The debt to Canada is supported by a Provincial guarantee. For details, see the following link to BCIIF's website: http://www.bcrcf.ca/bciif/about/index.html

# Management Perspective on Future Financial Outlook

While the federal government announced its intention to terminate the Immigrant Investor Program (IIP), federal applications that were in progress at the time of termination are currently being processed with funds continuing to flow through to BCIIF. Based on recent CIC estimates, BCIIF forecasts that it will continue to receive allocations totaling approximately $11 million through at least the first half of 2015/16.

In order to ensure sufficient liquidity to meet the five-year repayment obligation of the federal IIP, BCIIF continues to maintain a significant balance of cash and short-term investments, totaling $166 million as of December 31, 2014.

Government's 2015/16 Mandate Letter directed BCIIF to work with the Ministry of International Trade to complete the BCIIF review and implement a new mandate direction. Strategic opportunities are currently being considered in the context of this mandate review. During the review period no new investment opportunities are to be pursued. Appendix C includes a summary of additional risks and opportunities related to BCIIF's future financial outlook.

# Appendix A: Hyperlinks to Additional Information

**BC Immigrant Investment Fund (BCIIF)**

Corporate governance information (includes all information and disclosure requirements of the Crown Agencies Resource Office): www.bcrcf.ca/bciif/about/governance.html

Organizational Review: www.bciif.ca//bciif/about/index.html

Standards of Conduct: www.bciif.ca/bciif/docs/BCIIF_Standards_of%Conduct.pdf

**B.C. Renaissance Capital Fund Ltd. (BCRCF)**

Additional information on investment strategy, venture capital fund managers and investee companies of BCRCF, a wholly-owned subsidiary of BCIIF, can be found at: www.bcrcf.ca/bcrcf/index.html

# Appendix B: Subsidiaries and Operating Segments

## Active Subsidiaries

The B.C. Renaissance Capital Fund Ltd. is a Crown corporation that is wholly-owned by the BCIIF. The members of the Board of Directors and management are the same as the BCIIF.

In August 2007, the provincial Treasury Board approved an allocation of $90 million from BCIIF to BCRCF for the purposes of pursuing investment in four key technology sectors: digital media, information technology, life sciences, and clean technology. The objectives of the BCRCF are to:

- Generate superior, risk-adjusted returns for the capital committed;
- Increase the probability that innovative new goods and services in BC gain full-scale commercialization;
- Increase the depth of the venture capital market in BC; and
- Enhance the visibility of BC as an attractive market for venture capital opportunities in North America and globally.

As of December 2014, BCRCF has made investment commitments of $90 million with the following eight fund managers through formal limited partnership agreements and side letter agreements:

- ARCH Venture Partners
- Azure Capital
- iNovia Capital
- Kearny Venture Partners
- Tandem Expansion
- Vanedge Capital
- VantagePoint Capital Partners
- Yaletown Venture Partners

BCRCF invests with venture capital fund managers who have a track record of investing successfully in one or more of the four key technology sectors. Each venture capital firm that BCRCF invests with commits to perform certain investment-related activities in BC such as forming strategic alliances with local venture capital firms, participating in investor forums in BC to establish networks with stakeholders, and exploring investment opportunities in the province.

## BCRCF: Summary Financial Outlook Table

| ($m) | 2013/14 Actual | 2014/15 Forecast* | 2015/16 Budget | 2016/17 Budget | 2017/18 Budget |
|---|---|---|---|---|---|
| Revenues | 1,110 | 1,307 | 0,000 | 0,000 | 0,000 |

*to December 31, 2014.

**Notes**

(1) All BCRCF revenues and expenses are included in the consolidated statements of BCIIF. To be conservative given the high-risk nature of venture capital investments, venture capital investment income is reported as it is realized.

# Appendix C: Risks and Opportunities

**Interest Rate Risk**
Changes in interest rates may affect the financial position of the BCIIF, potentially resulting in lower returns on investments. BCIIF manages its exposure to interest rate risk by holding a portfolio of fixed and floating rate investments.

Persistent economic stagnation continues to result in a low interest rate environment which in turn has significantly reduced interest income from short-term investments. A low interest rate environment is likely to continue into 2015/16 and would impact BCIIF investments with bcIMC.

**Market Risk**
Market risk is the risk of changes in the value of venture capital investments. These investments are at the high end of the risk spectrum, typically in illiquid private companies. Given the long-term cycle of venture investing, cash distributions from venture capital partnerships are not expected to begin until more than five years after the date of initial capital commitment. Consistent with this timeline, BCRCF has begun to experience distributions resulting in both returns of capital and investment income. As of December 31, 2014, BCRCF had received a total of $6.2 million in venture distributions.

BCRCF has managed market risk by conducting due diligence, with the assistance of an independent financial advisor, on each of the prospective venture capital fund managers. The purpose of the due diligence was to confirm that each of the fund managers has a demonstrated track record of successful investing in high technology businesses in the four key sectors. Furthermore, BCRCF diversifies its venture capital investments across industries and geographic regions and limits its allocation to no more than 20% of any given individual venture capital fund.

The venture capital investments also pose foreign currency risk because some of the selected funds are denominated in U.S. dollars. BCIIF mitigated this currency risk by purchasing U.S. dollars in 2007 at an exchange rate of approximately one-to-one (Canadian dollar at par with U.S. dollar).

With the introduction of an independent Board of Directors and dedicated management, the BCIIF has introduced improved financial systems and controls and performance tracking and reporting measures. The implementation of these measures increases the transparency of fund performance and allows BCIIF to develop and implement appropriate risk mitigation strategies for the overall investment portfolio to offset higher risk Venture Capital Investments.

**Credit Risk**
BCIIF is exposed to credit risk in the event of non-performance by a public sector borrower. BCIIF assesses this risk when considering infrastructure loans. To date, loans have typically been unsecured and structured with a general obligation from a public sector institution in the Government Reporting Entity, ranking equivalent to other borrowings. BCIIF works in collaboration with the Ministry of Finance to follow prudent due diligence practices and ensure loan investments pose minimal credit risk.